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DEFENSE DEPARTMENT FOR SECRETARY GATES FROM AMBASSADOR  
GRAPPO

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SUBJECT: SCENESETTER FOR DEFENSE SECRETARY GATES' VISIT TO  
OMAN

Classified By: Ambassador Gary A. Grappo for Reasons 1.4 (b, d)

Summary  
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¶1. (C) Secretary Gates: Embassy Muscat and I warmly welcome you to Oman. As one of our oldest friends in the region -- the Omanis refer to their relationship with us as "strategic" -- the Sultanate remains a strong and trusted U.S. partner. We have requested an audience with Sultan Qaboos bin Said -- the second-longest (after Libya's Qadhafi) ruling head of state in the Arab world -- during your visit, as well as meetings with General Ali bin Majid al-Ma'amari, Minister of the Royal Office, and Sayyid Badr bin Saud bin Harib al-Busaidi, Minister Responsible for Defense Affairs.

¶2. (C) While the U.S. and Oman enjoy close relations, we do not see eye-to-eye on all matters, most notably on Iran. Oman's leadership recognizes and is deeply concerned about Iran's nuclear activities and its destabilizing meddling in the region, but its perspective on the threat posed by Tehran differs from those of the USG and its GCC partners. Omani government officials see direct talks with Tehran without preconditions or sanctions as the best way to mitigate Iranian threats. Iraq, the Israel-Palestinian conflict, Lebanon and the future stability of Yemen are other key regional concerns for Oman.

¶3. (C) U.S. security and military cooperation with Oman is robust. The landmark sale of F-16 aircraft in 2002 helped break Oman's traditional reliance on Great Britain for its defense procurement needs. Under the U.S.-Oman Base Access Agreement, unprecedented in the Gulf when first signed in 1980, the Omanis have provided us with consistent use of their military facilities, including for storage of approximately \$10 billion in U.S. War Reserve Materials. Recent sharp reductions in Foreign Military Financing (FMF) for Oman, however, could adversely impact opportunities for further military engagement.

¶4. (C) Domestically, Oman continues to enjoy internal stability and economic prosperity. National elections in October 2007 for the lower house of Oman's bicameral advisory body (Majlis al-Shura) went smoothly with higher than expected voter turnout, although no female candidates were elected. Oman's economy is enjoying double-digit growth; strong revenue from oil sales has provided funds for ambitious industrialization projects to help diversify the

economy. Oil production continues to decline, however, and rising inflation and living costs have generated some public grumbling. The U.S.-Oman Free Trade Agreement (FTA), signed by both the President and the Sultan in 2006, represents a new pillar in our bilateral relationship, but still has not been implemented due to Omani foot-dragging on remaining issues. End Summary.

Iran

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¶5. (C) Oman maintains close, cordial relations with Iran and is careful not to antagonize the regime in Tehran. Oman probably has the best relationship of any Arab state with Tehran and unlike its GCC counterparts, currently has no problematic bilateral issues with Iran. Iranian President Ahmadinejad visited Muscat and met with the Sultan in May ¶2007. The Omani government seeks to avoid even the suggestion of friction with Iran, preferring dialogue with its neighbor to the north on maritime security and other shared interests -- including possibly importing Iranian gas to fuel Oman's expanding industrial needs. Apart from a few subjects, however, the Oman-Iran relationship is largely non-substantive and there is little in the way of meaningful cooperation (and only limited trade) between the two countries. Oman's strategic relationship instead clearly lies with the United States (and the U.K.), and it regularly shares its insights and observations concerning Iran with us.

¶6. (C) While neither the political nor military leadership wants to describe Iran as a threat to Oman's security, Omani officials are disturbed by Iran's growing influence in the region and by its inability to come to terms with the U.S. and other P5 members over its nuclear program. In addition to the significantly increased instability a nuclear-capable

Iran would mean for the region, Omanis are anxious about Tehran's meddling and trouble-making in other states, particularly Iraq and Lebanon, and its opposition to efforts to end the Israeli-Palestinian conflict. Moreover, the January incident between IRGC and U.S. naval vessels in the Strait of Hormuz highlighted to Omani officials the vulnerability of this strategic chokepoint to unpredictable Iranian behavior. Despite these concerns, senior Omani government officials repeatedly advise us that sanctions against Iran are counter-productive and may strengthen hard-line attitudes in Tehran. They instead advise dialogue with Tehran without preconditions to mitigate Iranian threats. Oman has used its ties with Tehran to urge Iran to adopt a more conciliatory approach in addressing Western concerns over its nuclear activities and destabilizing actions in the region.

¶7. (S/NF) Omani leaders have a unique view of potential Iranian military action in that they do not believe Iran would attack GCC countries with missiles in response to a military strike staged in the Gulf. Instead, they see asymmetrical, terrorist operations conducted by Iran against Gulf states, including U.S. targets in these countries, as more likely. To this end, the Omanis are not keen on acquiring Patriot missiles as proposed by the U.S. in the Gulf Security Dialogue, and are more interested in Shared Early Warning (SEW) and HIMARS/ATACMS, which they view as more credible deterrent options for them.

Iraq

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¶8. (S) Although not a major financial donor, Oman supports USG efforts to promote security and political stability in Iraq. Prime Minister Maliki visited Muscat in April 2007 for talks with the Sultan and senior officials. The Omani government forgave all Iraqi debt and has publicly condemned several high-profile terrorist attacks. Oman is not an origin or transit country for fighters or illegal funds destined for Iraq. Because of security concerns, Oman has not reopened its embassy in Baghdad; Iraq maintains an accredited ambassador in Muscat, however.

¶9. (C) The Omani leadership remains concerned with Iraq's future. They remain particularly worried that extremist and sectarian violence in Iraq could spill over into other states in the region. Though encouraged by the recent improvement in security in Iraq brought on by the U.S. troop surge, Omani government officials harbor doubts about the reliability of Iraq's leadership and whether it can effectively control the country. They continue to assert that military force alone will not bring stability to Iraq. Senior Omanis also express concern about Iraqi Prime Minister Maliki's interest in and capability of pursuing reconciliation with Sunni leaders, which they see as critical to ending the insurgency. Senior Omani military officers and other officials, including the Sultan, support a continued U.S. military presence in Iraq until security is established and Iraqi forces and police are able to preserve security and stability. Finally, senior Omanis warn against making Iraq a "battleground between Sunni Arabs and Shi'a Persians." They see recent efforts to encourage greater Arab involvement in Iraq as a bulwark against the Iranians as playing into the hands of extremists. The best approach to keeping the Iranians at bay is building a stable and secure Iraq for all Iraqis.

#### Middle East Peace

¶10. (C) The Israeli-Palestinian conflict remains a matter of considerable interest, both within the leadership and among the Omani public. As elsewhere in the Arab world, news reports of civilian casualties from Israeli military strikes in Gaza have generated strong public condemnation. Oman closed the Israeli Trade Mission in Muscat in 2000 during the Second Intifada, but maintains good and regular (though non-public) communications with Israeli officials, including at the Foreign Minister level.

¶11. (C) The Omani government continues to play its traditional role of quiet support for efforts to peacefully resolve the Israeli-Palestinian conflict based on the President's two-state vision. Oman endorsed and participated

at the ministerial level in the November 2007 Annapolis Conference to promote Middle East peace. Their enthusiasm had been dampened recently, however, by events in Gaza. Omani officials warn that the U.S. must increase pressure on Israel to take meaningful action on settlements and to offer genuine concessions if a peace deal is to be achieved by the end of this year. Oman supports Palestinian President Abbas in his struggle with Hamas and pledged approximately \$30 million at the December 2007 Paris Donors Conference for education and health projects in the West Bank. It has declined to provide direct budgetary support for the Palestinian Authority.

#### Lebanon

¶12. (C) Oman backs the elected government of Lebanese Prime Minister Siniora, who met with the Sultan in Muscat in January 2007. It also recognizes Syrian complicity in the crisis in Beirut over the failure to select a new Lebanese president. Nevertheless, true to its commitment to peaceful dialogue, Oman still hopes that Damascus and Lebanese opposition groups can be coaxed into reaching a solution to the impasse. The Sultan will not attend the upcoming Arab League (AL) summit in Damascus; the Deputy Prime Minister will instead lead Oman's delegation. According to the foreign minister, the Lebanese crisis threatens to fracture the AL and broader Arab unity. The Omani government deposited \$50 million in the Central Bank of Lebanon in 2007 to fund reconstruction projects, but has not responded to requests for financial assistance for the international Hariri tribunal.

#### Bilateral Security Relations

¶13. (C) Oman is of vital geo-strategic importance to the U.S., many of our allies and the global economy. At the entrance to the Strait of Hormuz, Oman presides over all the shipping lanes in this critical chokepoint. In 1980, Oman decided to enter into a formal security partnership with the U.S. through a Base Access Agreement, which was unprecedented in the Gulf at the time. Since then, Oman has fully supported virtually all access, basing and over-flight requests we have made. Our use of Omani military facilities proved invaluable during both OEF and OIF. U.S. CENTAF maintains War Reserve Materials (WRM) sites at Seeb (Muscat) International Airport, Masirah Island and Thumrait, which house almost USD 10 billion in weapons, equipment, and supplies to support U.S. military operations in the Middle East and South Asia. The closure of the military portion of Seeb airport will be a phased reduction starting in 2010 and completed by 2012. Oman is constructing a new airbase at al-Musanah, close to the northern port of Sohar, and CENTAF hopes to build a WRM site at this facility. The Base Access Agreement is up for renewal in 2010; the U.S. will ask to expand its scope to include Sohar port in the north of Oman and the al-Musanah base.

#### Counter-Terrorism Efforts

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¶14. (S/NF) The Omani security and intelligence services are professional, reasonably well-funded and motivated. Oman is not a regional or offshore financial center and, accordingly, does not have significant money laundering or terrorist financing problems. To date, Oman has never experienced, or been used to stage, a terrorist attack or incident, although members of extremist groups have been arrested. However, with its relatively open and welcoming society and increasing numbers of Western tourists, Oman remains vulnerable to terrorist attacks.

¶15. (C) Border control is one of Oman's top priorities and an increasing area of bilateral cooperation with the U.S. Oman's long coastline and relatively open borders in some inland areas remain vulnerable to smugglers, drug traffickers, and - potentially - terrorists. The Royal Oman Police Coast Guard regularly detains smugglers and illegal migrant workers, usually along Oman's northern coast between Muscat and Sohar. The majority of illegal immigrants are from Pakistan and Afghanistan, who often travel overland to Iran and then board boats to cross the Gulf of Oman. Some of those detained are now coming from the former Soviet

republics in Central Asia; more Somalis are allegedly attempting to enter Oman via Yemen. One unofficial estimate placed the number of illegal immigrants apprehended in 2006 at over 25,000, although the numbers reportedly declined in ¶2007.

¶16. (C) The Embassy's Office of Military Cooperation (OMC) and Export Control and Related Border Security Assistance (EXBS) program work with the various military and police services to enhance Oman's ability to both monitor and enforce its borders. Furthermore, Oman is an active participant in two port/cargo security programs sponsored by the USG: the Secure Freight Initiative (administered by the Department of Homeland Security), which pre-screens containerized cargo being shipped to the U.S.; and the Department of Energy's MegaPorts Initiative, which is working to install equipment at Omani ports to identify nuclear material.

#### Overall Mil-Mil Programs

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¶17. (S/NF) Oman has supported virtually all access, basing and over-flight requests we have made. NAVCENT flies P-3 patrols from Masirah Island on an irregular single-ship deployment basis. NAVCENT also uses the Al Qarin bombing range when U.S. aircraft carriers transit off the coast. In addition, NAVCENT is dramatically increasing the number of

port calls to the Sultanate, including liberty visits and logistical re-supply visits. However, Oman does not currently allow nuclear-powered warships to call at its ports. Last year, the Omanis turned-down a proposed carrier visit. I recently informally approached the Minister Responsible for Foreign Affairs to request an exception to this policy in order to allow a nuclear-powered submarine to make a port call, which was also denied. COMUSNAVCENT sees a submarine visit as a stepping-stone to ultimately opening the way for carriers to make port calls in Oman. We are considering another possible approach in order to meet NAVCENT's needs.

¶18. (S) Exercises: The planned exercise schedule for FY08 is robust, with one ground exercise, three JCETs, two air (one of which will be a combined operation between Oman, the U.S., the U.K and France) and two EOD exercises. In addition, planning for a new amphibious exercise with Oman is underway, the objective of which will be the delivery of military assistance from the sea in response to a humanitarian disaster (i.e. typhoon, earthquake, etc.).

¶19. (U) IMET/CTFP/NESA: The FY06 IMET program for Oman was USD 1.089M with Oman sending 27 students to the U.S.; five Omanis were sent under the Counter Terrorism Fellowship (CTF) Program. FY07 IMET was USD \$1.089M and sent 28 Omani students to the U.S. for training. The FY 08 budget for IMET and CT for Oman increased to \$1.5M and \$100K, respectively. Currently, there are 58 Omani NESA alumni with two new participants preparing for travel.

#### Foreign Military Sales

¶20. (C) From a high of USD 24.85 million in FY04, the FY08 Foreign Military Financing (FMF) budget request for Oman was first reduced to USD 10.10 million, and then again to USD 4.4 million. The Omanis have not yet been officially notified of this reduction and we anticipate a very negative reaction, as well as questioning by the Omanis whether this is intended as a political message. OMC is working with MOD to best manage the decrease with its five year acquisition plan. Numerous FMF cases are in process, including NVDs, Naval and Coast Guard boats, M-16 rifles, Javelin and TOW-IIB missiles. Declining U.S. FMF poses a challenge for the modernization of Oman's military, as well as for the future of U.S. weapons sales to Oman.

¶21. (S) Key Foreign Military Sales (FMS) cases include:

a. (C) F-16s: Eleven of the 12 aircraft are in country, with one more scheduled for delivery in summer 2008. However, technical problems with the aircraft's electronic warfare suite and radar system have not been resolved. Oman is considering purchasing a second squadron of F-16s in the future, but this decision will likely remain on hold until

the current airplanes are fully operational. Overall, the Omanis are proving very capable as pilots, maintainers and logisticians. Case value is USD 750M.

b. (U) Tropospheric Scatter Network (Troposcatter) and 1kW HF Radios: These systems will provide integrated national C2; they gained in priority after the Omani stepped-up its operations to intercept and/or detain illegal immigrants. Company design of system requirements and availability has taken two years.

c. (C) Counter Narcotics/Counter Terrorism/Border Security: The Royal Oman Police (ROP), parent organization of the ROP Coast Guard, used Article 1004 funding to upgrade the command and control facility at ROP/HQ and to obtain secure HF radios for Coast Guard boats and stations. The radio upgrade was completed in December 06 and provided the ROP with the ability to intercept more smugglers than by using its old system of cell phones. ROP and OMC are working to obtain additional 1004 and 1033 money to institute further border control and counter narcotic/terrorism programs.

d. (S) Future Sales: Oman has made ATACMS/HIMARS a top priority due to its strong deterrent capability. Availability and funding issues (Oman has expressed a need for "creative financing") for Oman's proposed purchase of ATACMS are currently under review by the inter-agency process in Washington.

#### Intelligence

¶22. (S/NF) Bilateral Intelligence Exchanges: Oman and the U.S. have an active intelligence exchange program (SEAGULL). We recently concluded a very successful four-day intelligence exchange conference between CENTCOM analysts and Oman's Directorate of Military Intelligence. Oman's intelligence community is concerned about Iranian military activity and very interested in U.S. progress in Iraq. Additionally, Oman and the U.S. operate under an intelligence sharing agreement that supports a U.S.-provided ELINT system (Cluster Spectrum). Due to maintenance problems and its advanced age, the system is ineffective. Oman is seeking new ELINT/SIGINT equipment to fill the gap. The U.S. intelligence community's response to Oman's request is being staffed in the Defense Intelligence Agency (DIA).

#### Domestic Politics

¶23. (C) As a result of the strong leadership and pro-Western tilt of Sultan Qaboos, the country's trade and maritime heritage, and generally tolerant religious views, Omanis are known for openness and moderation. The Sultan is considered an enlightened, benevolent ruler who has won the firm allegiance of all Omani tribal groups. His commitment to tolerance and opposition to division among religious or ethnic lines have resulted in the absence of sectarian or factional conflict. In 1996, the Sultan promulgated Oman's "Basic Law" which defines certain rights and privileges for all citizens and enshrines the role of the Majlis Oman, a two-chamber advisory body with severely circumscribed legislative functions. Members of the upper house (the Majlis al-Dawla) are appointed by the Sultan; members of the lower house (the Majlis al-Shura) are directly elected by universal suffrage every four years. While the Majlis Oman can review and comment on draft laws and budgets, it cannot initiate or veto legislation. There are no political parties or interest groups.

¶24. (C) Turn out was higher than expected in Oman's October 27, 2007 national polls for the Majlis al-Shura, with over 62% of registered voters casting ballots in a generally free and fair election. Many Omanis, however, chose not to register, in part due to perceptions that the Majlis is largely ineffective. Omanis continued to vote along tribal lines, although this practice was reportedly less pronounced than in the 2003 elections. Newcomers won more than half of the 84 seats; however, none of the approximately 20 female candidates won their electoral bids. The Sultan was disappointed with this outcome and, in response, appointed 14 women to serve in the 70 member Majlis al-Dawla (the upper chamber). To assist Oman's domestic reform efforts, the U.S. has partnered with Oman through the Middle East Partnership

Initiative (MEPI) to institute programs focusing on judicial, educational, economic and political reform, as well as women's empowerment.

#### Trafficking in Persons

¶25. (C) While the U.S.-Oman relationship has generally been free of tension, the Omani government reacted strongly to its designation as a Tier 3 country in the State Department's 2006 Trafficking in Persons (TIP) report. Despite Embassy assertions to the contrary, some Omani officials -- who have much to learn about the global TIP problem -- questioned whether there was a political reason behind this designation.

With the assistance of a USG-funded American expert, Oman has since drafted a comprehensive anti-TIP law that expressly defines and criminalizes trafficking and establishes a national committee to coordinate anti-TIP initiatives. Passage of the law would represent a significant step forward in addressing U.S. concerns.

#### Economic and Energy Update

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¶26. (C) Oman's economy is based primarily on revenues derived from petroleum and natural gas, which accounted for 79% of the government's income in 2007. Proven oil reserves are estimated at 4.8 billion barrels, though Ministry of Oil and Gas officials are optimistic that over 35 billion barrels remain to be recovered. Skeptics suggest a significantly lower figure. The main oil producer is Petroleum Development Oman (PDO), a majority government-owned company that partners with Royal Dutch Shell. It controls approximately 90 percent of the reserves and the lion's share of total production. With average daily production falling from 956,000 barrels per day (bpd) in 2001 to 710,000 bpd in 2007, the government has opened the sector to greater foreign participation in a bid to increase output.

¶27. (C) Despite declining oil production, high oil prices over the past several years have led to solid Omani budget surpluses and GDP growth. Oman's economy grew over 11% in 2007 and produced an estimated \$4.5 billion surplus, which the government will use in part to improve oil production capabilities and locate additional gas reserves. In addition, the government is using its revenues to strengthen the economy in the long-run by shoring up its pension fund, reducing its debt, and augmenting a number of reserve funds. Flush oil revenues also have allowed the government to proceed with plans to diversify Oman's economy through industrialization, port infrastructure expansion, and tourism development. The largest single industrial investment target is the port city of Sohar, which has witnessed over \$12 billion in government investment alone. Since domestic gas supply concerns are dampening the government's industrialization efforts, Oman is looking to Iran and Qatar as potential suppliers; discussions with Iran to jointly develop the Hinjam/Bukha field in the Gulf are ongoing.

¶28. (C) Inflation and the rising cost of living have emerged as significant concerns in Oman, evoking much public grumbling. Prices for many consumer goods, including basic staples, have risen sharply. Booming real estate values have led to skyrocketing rents and made home ownership much less affordable. Significant government spending on various construction projects, and the currency peg to the declining dollar, have contributed to rapid increases in the prices of building materials and consumables. In December 2007, the government estimated inflation at over eight percent, its highest level in 16 years.

#### Free Trade Initiatives

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¶29. (C) To encourage further foreign investment and develop export markets, the government is strengthening its trade relationships through the negotiation of free trade agreements with a number of strategic partners, particularly in Asia. In October 2006, President Bush and the Sultan signed the U.S.-Oman Free Trade Agreement (FTA), but implementation remains pending revisions to Oman's intellectual property, government procurement, and telecommunications licensing laws and regulations. Omani officials acknowledge that they are responsible for most of

the remaining issues delaying FTA implementation.